

Message Text

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C O N F I D E N T I A L ASUNCION 00799

E.O. 11652: GDS

TAGS: MASS, PA

SUBJ: FY 1977 MILITARY SECURITY ASSISTANCE: PARAGUAY

REF: STATE 361601

1. PARAGUAY HAS NO STRATEGIC IMPORTANCE FOR THE UNITED STATES IN THE SENSE THAT IT IS RELEVANT TO ANY U.S. SECURITY INTEREST. OUR LONG-STANDING PROGRAM OF GRANT MILITARY ASSISTANCE TO PARAGUAY IS JUSTIFIED ON POLITICAL AND DEVELOPMENTAL GROUNDS RATHER THAN IN TERMS OF ITS CONTRIBUTION TO US DEFENSE INTERESTS. THIS COMPARATIVELY MODEST PROGRAM HAS CONSISTED PRIMARILY OF EQUIPMENT, SERVICES AND TRAINING FOR USE IN NATION-BUILDING PROJECTS, SUCH AS ROAD CONSTRUCTION, BUILDING SCHOOLS AND MEDICAL FACILITIES, DRILLING OF WATER WELLS IN REMOTE AREAS AND THE OVERHAUL OF C-47 ENGINES IN SUPPORT OF THE COUNTRY'S ONLY DOMESTIC AIR TRANSPORT SYSTEM. U.S. MILITARY ASSISTANCE PROGRAM HAS BEEN GREATLY APPRECIATED BY THE GOP AND IN MY JUDGMENT HAS BEEN EFFECTIVE IN RELATION TO ITS OBJECTIVES. NOT ONLY HAS THE PROGRAM MADE A POSITIVE CONTRIBUTION TO THE NATION'S ECONOMIC DEVELOPMENT BUT, MORE IMPORTANTLY, IT HAS PAID OFF IN TERMS OF POLITICAL INFLUENCE BY PROVIDING LEVERAGE FOR ADVANCING US INTERESTS IN OTHER FIELDS. NOT THE LEAST IM-
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PORTANT OF THESE HAS BEEN PARAGUAY'S CONSISTENT SUPPORT OVER

THE YEARS OF THE US POSITION ON KEY ISSUES AT THE UN AND ELSEWHERE.

2. THE PROPOSED FY-77 PROGRAM, WHICH IS A COMBINATION OF MODEST AMOUNTS OF MAP MATERIEL, TRAINING AND FMS CREDIT, CONTINUES IN THE TRADITION OF PAST PROGRAMS BY EMPHASIZING EQUIPMENT AND TRAINING FOR DEVELOPMENT-RELATED ACTIVITIES. AT THE SAME TIME THE FY-77 PROGRAM SHOULD HELP PARAGUAY MAKE THE TRANSITION FROM GRANT MILITARY AID TO EVENTUAL CASH PURCHASES AS ECONOMIC GROWTH PERMITS. THE SMALL GRANT PORTION OF THE PROGRAM WILL SERVE TO MINIMIZE THE IMPACT OF THE ANTICIPATED TERMINATION OF ALL GRANT MATERIEL ASSISTANCE, WHILE THE CREDIT PORTION SHOULD HELP ORIENT THE GOP TOWARDS FUTURE PURCHASES IN THE U.S. THE PROJECTED TRAINING COMPLEMENTS PLANNED EQUIPMENT ACQUISITIONS AND OTHER ONGOING ACTIVITIES. I SUBMIT THAT THE PROPOSED FY 77 PROGRAM IS INTERNALLY CONSISTENT AND IN ACCORD WITH PAST US MILITARY ASSISTANCE EFFORTS AND OUR PRESENT POLICY OF PHASING OUT GRANT MATERIEL PROGRAMS. HOWEVER, WE SHOULD UNDERSTAND CLEARLY THAT THE PHASING OUT OF GRANT MILITARY AID WILL, OF COURSE, GREATLY DIMINISH THE POLITICAL LEVERAGE WE DERIVED FROM THE MAP GRANT PROGRAM. FMS CREDITS AND CASH SALES WILL NOT PROVIDE AN EQUALLY SATISFACTORY ALTERNATIVE FOR ACCOMPLISHING THIS PURPOSE.

3. FOR A COUNTRY ITS SIZE (2.5 MILLION PEOPLE, 157,000 SQ. MILES) PARAGUAY HAS RECEIVED CONSIDERABLE EXTERNAL ECONOMIC ASSISTANCE, BOTH FROM US AND THIRD COUNTRY BILATERAL PROGRAMS AND FROM INTERNATIONAL FINANCIAL INSTITUTIONS (IFI). FROM 1946 TO 1975, US BILATERAL ASSISTANCE TOTALED 104 MILLION IN LOANS AND GRANTS AND \$37 MILLION IN PL480, WHILE AS OF 1973, THE LAST YEAR FOR WHICH FIGURES ARE AVAILABLE, IFI CONTRIBUTIONS AMOUNT TO \$195.5 MILLION. THIRD COUNTRY ECONOMIC ASSISTANCE CAME TO \$22 MILLION FROM 1960-70. THIRD COUNTRY GRANT MILITARY ASSISTANCE, MAINLY FROM BRAZIL AND ARGENTINA, TOTALED ROUGHLY \$6.5 MILLION THROUGH 1975. THERE IS EVERY REASON TO BELIEVE IFI WILL CONTINUE TO MAKE FUNDS AVAILABLE TO PARAGUAY AT THE SAME OR INCREASED LEVELS IN THE FUTURE. THE PRIMARY LIMITING FACTOR IS THE COUNTRY'S CAPACITY TO ABSORB SUCH ASSISTANCE. AT PRESENT, IT IS CONTEMPLATED THAT US BILATERAL ASSISTANCE

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WILL MAINTAIN ITS CURRENT ANNUAL LEVEL OF ABOUT \$3 MILLION IN LOANS AND \$2 MILLION IN GRANTS.

4. SINCE 1971, PARAGUAY HAS ENJOYED A HEALTHY RATE OF ECONOMIC GROWTH, AVERAGING SOME 7.2 PERCENT PER ANNUM. IN 1974 THE ECONOMY INCREASED BY AN ESTIMATED 8 PERCENT BRINGING THE AVERAGE PER CAPITA GNP UP TO APPROXIMATELY \$500. WHILE I RESERVE JUDGMENT AS TO ITS DOLLAR FOR DOLLAR EFFECTIVE-

NESS, FOREIGN ASSISTANCE CLEARLY HAS PLAYED A MAJOR PART IN HELPING THE NATION'S ECONOMIC DEVELOPMENT. IF THE CURRENT GROWTH RATE CAN BE SUSTAINED, PARAGUAY MAY BE CAPABLE OF ABSORBING THE COST OF THE PLANNED TRANSITION FROM GRANT MILITARY ASSISTANCE TO FMS CREDIT AND CASH SALES WITHOUT DETRACTING SIGNIFICANTLY FROM ITS OVERALL DEVELOPMENT. IF THESE SALES FOLLOW THE PATTERN OF THE PAST WITH CONTINUED EMPHASIS ON NATION BUILDING, THEY WOULD FIT IN WELL WITH NATIONAL DEVELOPMENT. HOWEVER, DESPITE ENCOURAGING GROWTH OVER THE PAST FEW YEARS AND COMPARATIVELY BRIGHT PROSPECTS FOR THE FUTURE, PARAGUAY REMAINS ONE OF THE POOREST COUNTRIES IN THE HEMISPHERE.

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